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June 30, 2006

VIA ELECTRONIC FILING

Charles L. A. Terreni, Esquire
Chief Clerk & Administrator
Public Service Commission of South Carolina
101 Executive Center Drive
Columbia, South Carolina 29210

Re: Docket No. 2004-178-E, Proposed Letter Implementing the Commission's Directive of June 27, 2006.

Dear Mr. Terreni:

Enclosed for filing with the Commission is a proposed letter implementing the terms of the Commission's directive of June 27, 2006 in this matter. The Office of Regulatory Staff has reviewed the proposed letter and is in agreement with its terms.

Thank you for your attention to this matter.

Very truly yours,

s/Belton T. Zeigler

Belton T. Zeigler

BTZ:md
Encl.

cc: John W. Flitter, Director, Electric & Gas Regulation, SC ORS
Shannon Bowyer Hudson, Counsel, SC ORS
Patricia B. Morrison, Senior Counsel, SCANA
Kenneth R. Jackson, Director, Rates and Regulatory Affairs, SCANA

Proposed Letter Implementing the Commission's Directive of June 27, 2006
Submitted by SCE&G with Concurrence of ORS

June 27, 2006

Mr. Belton T. Zeigler, Esquire
Haynsworth Sinkler Boyd, P.A.
1201 Main Street, Suite 2200
Columbia, SC 29211-1889

Re: Amendment of Accounting Letter issued on June 21, 2000

Dear Mr. Zeigler:

By letter of June 9, 2006 South Carolina Electric & Gas Company (SCE&G) requested the Commission amend the accounting letter it issued on June 21, 2000 (the Accounting Letter) relating to SCE&G's investment in synthetic fuel partnerships. As set forth in that request, SCE&G participates in two such partnerships that manufacture synthetic fuel from coal. This fuel qualifies for Federal tax credits under Section 29 of the U.S. Internal Revenue Service Code.

As contemplated by Order No. 2005-2, SCE&G has used the tax credits generated by these partnerships to defray the majority of the cost of the Saluda Dam Remediation Project, thereby reducing costs to electric customers. Pursuant to Commission Order 2005-698, SCE&G also has used a small portion of the credits in the winter of 2005-2006 to extend bill assistance to qualifying low-income residential gas customers.

In requesting an amendment to the Accounting Letter, SCE&G does not seek to change the allocation or use of Synthetic Fuel Tax Credits as currently approved. Instead, SCE&G seeks authorization to suspend the $1.50 per ton discount that the partnerships have agreed to provide on the price of synthetic fuel sold to SCE&G's electric generation stations. (The discount is based on the per ton cost of coal before processing into synthetic fuel.) SCE&G seeks a suspension of the discount to allow the partnerships to continue to operate under current economic conditions. For reasons that are explained in the letter of June 9, 2006, SCE&G's synfuel partnerships will be forced to shut down their operations shortly unless their costs of operations can be restructured.

In lieu of an immediate shut down, several stakeholders in the partnerships have proposed that parties currently receiving benefits from the partnerships suspend collection of all or part of those benefits to allow the partnerships to continue to operate at least temporarily. The suspended benefits would include royalties, operating margins for the plant operators, and the $1.50 per ton discount discussed above. The suspended benefits, including the $1.50 per ton discount, would be accumulated and when the IRS establishes the precise level of tax credits for the 2006 tax year, the suspended benefits would be funded pro rata. SCE&G has agreed that it would exercise all rights available to it as a partner to end the suspension as soon as market prices allow.

On June 23, 2006 the Office of Regulatory Staff (ORS) submitted a letter to the Commission supporting the Company's request with certain conditions concerning the suspended discount of $1.50 per ton of coal before it is processed into synthetic fuel. Specifically, ORS asks the Commission to require SCE&G to recognize credits to fuel cost accounts immediately upon distribution of partnership benefits. ORS also asks the Commission to require that upon distribution of tax credits, SCE&G recognize a credit to the fuel accounts for the suspended discounts in an amount reflecting the percentage of the potential tax credits that are confirmed or qualified for the tax year. SCE&G has consented to these requests.

ORS has also requested that SCE&G provide ORS with a monthly status report by the 30th day following the end of the month detailing the effect of current and projected oil prices on the profitability of the synthetic fuel operations. SCE&G has agreed to provide ORS with the requested reports.

The Commission took up SCE&G's request and the comments of ORS at its regularly scheduled meeting of June 27, 2006. The Commission grants the request to amend the Accounting Letter dated June 21, 2000 and suspend the $1.50 per ton discount on the price of synthetic fuel on the terms proposed by SCE&G in its letter of June 9, 2006, as supplemented and amended by the terms of the ORS letter of June 23, 2006, all as set forth above.

It should be noted that this request is granted for accounting purposes only and will be subject to the Commission's review in future rate proceedings.

Sincerely,

Randy Mitchell
Chairman,
South Carolina Public Service Commission